

Ethical Accounting Practice Case Study

Rick was hired as Controller to help sort out and organize the records of a \$7 million dollar medical supply firm. This company was recently extended a \$1,000,000 small business loan to acquire the assets of a competitor that was going out of business. In Rick's view, the acquisition was a financial mess. Inventory records were misplaced or inaccurate, and no one could figure out the accounts receivable, most of which were over 45 days past due. Although salesmen from the acquired firm were retained, a sales decline in the industry and poor management of the new firm led to attrition of the best and brightest individuals.

Because of the sales decline, the bank was pressing to know more about the consolidated entity's current financial situation. Monica, the bank Vice President in charge of the loan, and her staff of bank auditors were in daily contact with Rick. Each morning, Rick was a bit nervous about that day's cash draw since the firm really played the float. Moreover, Russ, the President, would often hold large vendor checks in his desk drawer without telling Rick.

Although the financial resources were strained at best (the firm had trouble reimbursing petty cash), there was a sense of optimism within the organization. As the company penetrated the nursing home industry, it was pulling in enormous profits from Medicare due to mark-ups at eight times its costs. As a result of these sales, the firm would start earning a small profit in the fourth quarter. Even at the end of the year, however, Russ did not want to mention these sales figures to the bank or accrue the revenue and accounts receivable until the checks arrived, because he was unsure when the government would be paying for the goods, and more importantly, because he wanted to have something in his back pocket in case the bank wanted to foreclose. Furthermore, Russ, as the majority stockholder in the firm, was concerned he would lose the firm if bankruptcy proceedings should start.

After a few months of recording sales on a cash basis, Rick started slipping hints to the bank that the company's financial status was better than was reported. Still, it was not his company, and he needed to keep his job. He knew that Russ would "play games" with other people, but he would not appreciate other people's "playing games with him." Moreover, Russ did not trust new employees, and Rick knew he would have to "earn" the President's trust.